



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

December 9, 2008

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

SACRAMENTO UPDATE

Legislature Holds Joint Convention on the State Budget

On December 8, 2008, the Legislature met in a rare Joint Convention to hear from key State finance officials regarding the State's growing fiscal crisis. State Treasurer Bill Lockyer, State Controller John Chiang, Legislative Analyst Mac Taylor, and State Finance Director Mike Genest urged legislators to act swiftly to tackle the State's budget deficit, which is estimated at \$28 billion over the next 18 to 24 months. The budget shortfall is in large part attributed to the drastic decline in State revenues, as a result of the economic recession.

Treasurer Bill Lockyer warned lawmakers that if the budget shortfall is not addressed within the next two weeks, about \$5 billion in public infrastructure projects ranging from synchronizing local street lights to school construction would come to a halt. He indicated that these projects are financed from the State's Pooled Investment Account, which is replenished when bonds are sold; however, as a result of the State's dire fiscal condition, there is no market for these bonds. The Treasurer also noted that if construction projects were stopped, it would further add to the State's fast growing unemployment rate.

Legislative Analyst Mac Taylor suggested that a balanced approach is necessary to address the fiscal crisis, because the shortfall cannot be resolved through spending reductions or revenue increases alone. Mr. Taylor said that many solutions used in prior years to address fiscal crises, such as special fund loans, are now off the table.

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Mr. Taylor offered an interesting perspective by pointing out that if the budget shortfall was to be solved with tax increases alone, the State would have to approve either: a) a two-cent sales tax increase; b) a 15-percent personal income tax surcharge; or c) a two-percentage point corporate tax increase. Alternatively, if the budget problem was to be addressed with program cuts alone, the State would have to eliminate either: a) General Fund support for the University of California and the California State University systems; b) funding for welfare payments; or c) funding for developmental services, mental health, and In-Home Supportive Services.

State Controller John Chiang indicated that the State's fiscal condition is so severe that IOU's could be issued if the State runs out of cash by March of next year. The Controller also said that "a delay in action would be catastrophic," and that while raising taxes or cutting further into State programs are not popular choices, doing nothing is not an option.

State Finance Director Mike Genest stressed the importance of prompt action, which would make the State's cash situation more manageable in the coming months, but warned that the projected deficit could be higher when the Governor's FY 2009-10 Proposed Budget is released in January.

Senate President pro Tempore Darrell Steinberg has called for Senate Budget Subcommittees to begin meeting on December 10, 2008, while Assembly Speaker Karen Bass said that the Assembly Budget Committee may meet on December 11, 2008. The two leaders have indicated that they would like to see a budget agreement reached by December 20, 2008.

Tax Commission Appointment

Assembly Speaker Karen Bass announced that Gerald Parsky will chair the new tax commission that she and the Governor Schwarzenegger formed in October. The new commission is charged with making recommendations on how to modernize California's tax structure. The Governor, Assembly Speaker and Senate President pro Tempore are expected to announce the remaining 11 commission members shortly. A report by the commission is expected by April 15, 2009.

We will continue to keep you advised.

WTF:GK
DW:MR:DS:sb

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association